



State of Rhode Island and Providence Plantations

Revenue & Caseload Estimating Conference

Room 306, STATE HOUSE, PROVIDENCE, RI 02903


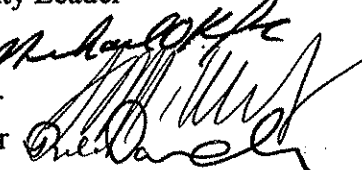
MICHAEL O'KEEFE
House Fiscal Advisor

RUSSELL C. DANNECKER
Senate Fiscal Advisor

STEPHEN P. MCALLISTER
*Associate Director of Finance
Budget Officer*

May 17, 2000

To: The Honorable Lincoln C. Almond, Governor
The Honorable John B. Harwood, Speaker of the House
The Honorable Paul S. Kelly, Senate Majority Leader

From: Michael O'Keefe, House Fiscal Advisor 
Stephen P. McAllister, State Budget Officer
Russell C. Dannecker, Senate Fiscal Advisor 

Date: May 11, 2000

Subject: May 2000 Consensus Revenue Estimating Conference

Summary

The Revenue Estimating Conference met May 2 in an open public meeting to adopt the economic forecast and May 9 to review and revise as necessary FY 2000 and FY 2001 revenue estimates made last November. The Conference revised the FY 2000 estimates upward by \$38.9 million and FY 2001 estimates by \$51.7 million over the November Conference estimates.

The estimates are based on current laws, which include lower income tax rates and expiration of the hospital tax. Tables are included at the end. The estimates are \$36.1 million higher than the revenues contained in 2000-H 6804, the FY 2000 supplemental budget. They are \$42.2 million higher than the estimates contained in the Governor's FY 2001 recommendations.

Economic Forecast

The Conferees met with the consulting economists from DRI/McGraw Hill and Regional Financial Associates on May 2 to review economic forecasts. Legislation enacted by the 1998 Assembly amended the Revenue Estimating Conference statutes to require a consensus economic forecast. That forecast appears in the table below.

All agreed that economic growth is continuing, at an even better rate than forecast in November. Personal income for FY 2001 is estimated at \$30.2 billion, a slight increase over \$29.9 million forecast in November, and a change in the growth rate from 4.5 percent forecast in November to 5.4 percent now estimated. Total employment is also 2,000 higher in the new forecast.

Inflation is estimated at 2.6 percent in FY 2001 and 2.4 percent in FY 2001. This is greater than the 2.4 percent and 2.1 percent in the November forecast, and would contribute to increased revenues from wage gains and higher prices.

DRI/McGraw-Hill estimates the risk of a late recession beginning in FY 2003 and lasting four quarters at 30 percent. Their forecasters also estimate a 10 percent possibility of recession in FY 2001 based on stock market correction and faltering consumer confidence.

Fiscal Year	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
RI Employment	\$ 445.3	\$ 454.3	\$ 460.7	\$ 465.3	\$ 473.2
<i>Employment Change</i>	<i>1.1</i>	<i>2.0</i>	<i>1.4</i>	<i>1.7</i>	<i>1.0</i>
RI Personal Income	\$ 24.7	\$ 25.9	\$ 27.2	\$ 28.7	\$ 30.2
<i>Personal Income Change</i>	<i>4.5</i>	<i>5.1</i>	<i>4.9</i>	<i>5.2</i>	<i>5.4</i>
<i>US CPI-U Change</i>	<i>2.8</i>	<i>1.8</i>	<i>1.7</i>	<i>2.6</i>	<i>2.4</i>
Calendar Year	1997	1998	1999	2000	2001
RI Employment	\$ 450.0	\$ 457.6	\$ 464.4	\$ 471.3	\$ 475.1
<i>Employment Change</i>	<i>1.9</i>	<i>1.7</i>	<i>1.5</i>	<i>1.5</i>	<i>0.8</i>
RI Personal Income	\$ 25.3	\$ 26.6	\$ 27.8	\$ 29.4	\$ 30.9
<i>Personal Income Change</i>	<i>5.3</i>	<i>5.0</i>	<i>4.6</i>	<i>5.7</i>	<i>5.1</i>
<i>US CPI-U Change</i>	<i>2.3</i>	<i>1.6</i>	<i>2.2</i>	<i>2.6</i>	<i>2.5</i>

Revenues

Taxes. Revenues from taxes are estimated to grow 6.8 percent in FY 2000 and 2.8 percent in FY 2001. These are unadjusted rates, and do not reflect the impact of tax law changes. If these were factored in, the growth rates would be higher.

Total estimated taxes for FY 2000 are \$55.2 million above the enacted estimates. FY 2001 total estimated taxes are \$49.4 million above the revised FY 2000 estimate.

Personal Income Tax. The estimates of \$805.1 million for FY 2000 and \$825.5 million for FY 2001 represent adjusted growth rates of 8.7 percent and 4.2 percent respectively. The adjusted growth rates reflect the 5-year phase in of the tax reduction adopted by the 1997 Assembly that lowers tax rates from 27.5 percent of 1997 federal liability to 25.0 percent in 2002.

Business Taxes. The Conference estimates \$202.4 million in FY 2000 and \$203.4 million in FY 2001. While growth over the prior years are 4.3 percent and 0.5 percent, respectively, the May

FY 2000 estimate is \$2.3 million less than estimated in November and the FY 2001 estimate is \$1.3 million less.

Sales Tax. The Conferees estimate sales tax revenues of \$628.5 million in FY 2000 and \$658.0 million in FY 2001 for the 6.4 cent share of the 7.0 cent sales tax. The FY 2000 revenues are \$20.5 million greater than the November estimate, and represent 11.3 percent growth over FY 1999. The FY 2001 estimate is \$21.4 million above the November estimate and represents 4.7 percent growth over the May FY 2000 estimate.

All Other Taxes. All other taxes are estimated to produce \$152.4 million in FY 2000 and \$150.9 million in FY 2001. The estimates are 3.9 and 3.3 percent less than the prior years, largely as the result of declining tobacco tax revenues and larger than usual inheritance taxes in FY 1999. The estimates represent increases of \$3.9 million and \$3.3 million, respectively, over the November estimates.

Departmental Receipts. The estimators adopted estimates of \$201.3 million in FY 2000 and \$154.0 million in FY 2001 for these sources which include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as general revenues. The FY 2000 estimate is a minor revision of \$0.9 million to the enacted estimate.

FY 2001 drops off mainly due to the end of the hospital license fee in FY 2000, which produces approximately \$37.4 million. That fee has been on a year to year basis, and has been extended each year since its inception. However, the estimators must estimate within current law, under which there would not be a fee in FY 2001.

Other Sources. Other source revenue consists of transfers to the general revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources. These are estimated to produce \$243.6 million in FY 2000 and \$292.8 million in FY 2001. The FY 2000 estimate is \$0.8 million less than estimated in November due mainly to less unclaimed property transfer and delay in reimbursement from the underground storage tank fund. These are partially offset by increased sales tax revenues available from Depositors Economic Protection Corporation.

FY 2001 is \$15.7 million more than the November estimate of which \$14.6 million is due to increased transfers of unneeded sales tax from Depositors Economic Protection Corporation (DEPCO) as the debt is defeased.

The Lottery component of other source revenue is estimated at \$150.5 million in FY 2000 and \$165.4 million in FY 2001. The FY 2000 estimate is an upward revision of \$0.5 million over the November estimate, and represents 12.8 percent growth over FY 1999. The increase over November includes \$1.5 million more for games, \$0.8 million more for Keno and \$1.8 million less for video. Video is estimated to yield 25.2 percent more in FY 2000 than FY 1999.

Lottery transfers to general revenues in FY 2001 represent 9.9 percent overall growth, and includes \$42.5 million from games, \$13.8 million from Keno, and \$109.1 million from video terminals. While that is 15.8 percent growth over the FY 2000 estimate for video, it is \$2.9 million less than estimated in November.

May 2000 Conference	FY 1999		FY 2000 Estimate		FY 2001 Estimate	
Personal Income Tax	\$ 757,557,456	4.8%	805,100,000	6.3%	825,500,000	2.5%
General Business Taxes						
Business Corporations	66,497,243	-7.1%	62,700,000	-5.7%	62,700,000	0.0%
Franchise	7,896,372	8.0%	7,800,000	-1.2%	7,800,000	0.0%
Public Utilities Gross	66,349,690	6.4%	70,400,000	6.1%	70,400,000	0.0%
Financial Institutions	(1,639,532)	41.6%	2,800,000	-270.8%	2,800,000	0.0%
Insurance Companies	31,648,918	-24.3%	33,500,000	5.8%	33,500,000	0.0%
Bank Deposits	(612,474)	-144.1%	900,000	-246.9%	900,000	0.0%
Health Care Provider	23,974,976	1.8%	24,300,000	1.4%	25,300,000	4.1%
Sales and Use Taxes						
Sales and Use	564,807,963	6.4%	628,500,000	11.3%	658,000,000	4.7%
Motor Vehicle	41,991,608	4.1%	44,500,000	6.0%	45,400,000	2.0%
Motor Fuel	1,010,393	-79.6%	1,010,000	0.0%	1,010,000	0.0%
Cigarettes	61,576,289	-4.1%	59,400,000	-3.5%	57,300,000	-3.5%
Alcohol	9,027,601	5.1%	9,000,000	-0.3%	9,000,000	0.0%
Controlled Substances	-	-100.0%	-	-	-	-
Other Taxes						
Inheritance and Gift	36,324,715	15.2%	31,000,000	-14.7%	31,000,000	0.0%
Racing and Athletics	5,806,170	-2.9%	5,300,000	-8.7%	5,000,000	-5.7%
Realty Transfer	2,585,090	-59.7%	2,200,000	-14.9%	2,200,000	0.0%
SubTotal - Taxes	1,674,802,478	3.2%	1,788,410,000	6.8%	1,837,810,000	2.8%
Departmental Receipts						
Licenses and Fees	103,243,938	1.8%	104,500,000	1.2%	64,000,000	-38.8%
Fines and Penalties	27,648,766	8.4%	26,500,000	-4.2%	23,000,000	-13.2%
Sales and Services	32,137,957	5.6%	34,300,000	6.7%	34,200,000	-0.3%
Miscellaneous Departmentals	36,614,148	11.4%	36,000,000	-1.7%	32,800,000	-8.9%
SubTotal - Departmentals	199,644,809	4.9%	201,300,000	0.8%	154,000,000	-23.5%
Taxes and Departmentals	1,874,447,287	3.4%	1,989,710,000	6.1%	1,991,810,000	0.1%
Other Sources						
Gas Tax Transfer	20,041,618	-34.1%	16,450,000	-17.9%	9,600,000	-41.6%
Other Miscellaneous	15,891,757	-51.4%	73,218,106	360.7%	114,337,542	56.2%
Lottery	133,475,047	16.0%	150,500,000	12.8%	165,400,000	9.9%
Unclaimed Property	4,488,559	21.5%	3,400,000	-24.3%	3,500,000	2.9%
SubTotal	173,896,981	-4.4%	243,568,106	40.1%	292,837,542	20.2%
Total General Revenues	2,048,344,268	2.7%	2,233,278,106	9.0%	2,284,647,542	2.3%

May 2000 Conference	FY 2000	Change to November Estimate	Gov Included	Change to Gov
Personal Income Tax	\$ 805,100,000	\$ 18,400,000	\$ (72,806)	\$ 18,327,194
General Business Taxes				
Business Corporations	62,700,000	(4,300,000)	(632,415)	(4,932,415)
Franchise	7,800,000	(100,000)		(100,000)
Public Utilities Gross	70,400,000	4,100,000		4,100,000
Financial Institutions	2,800,000	(1,200,000)	(877,042)	(2,077,042)
Insurance Companies	33,500,000	-		-
Bank Deposits	900,000	-		-
Health Care Provider	24,300,000	(800,000)		(800,000)
Sales and Use Taxes				
Sales and Use	628,500,000	20,500,000	(404,355)	20,095,645
Motor Vehicle	44,500,000	1,000,000		1,000,000
Motor Fuel	1,010,000	335,000	(83,806)	251,194
Cigarettes	59,400,000	1,400,000		1,400,000
Alcohol	9,000,000	-		-
Controlled Substances	-	-		-
Other Taxes				
Inheritance and Gift	31,000,000	1,000,000		1,000,000
Racing and Athletics	5,300,000	100,000		100,000
Realty Transfer	2,200,000	100,000		100,000
SubTotal - Taxes	1,788,410,000	40,535,000	(2,070,424)	38,464,576
Departmental Receipts				
Licenses and Fees	104,500,000	1,900,000	(56,000)	1,844,000
Fines and Penalties	26,500,000	(3,100,000)		(3,100,000)
Sales and Services	34,300,000	300,000	(274,563)	25,437
Miscellaneous Departmentals	36,000,000	-	(119,000)	(119,000)
SubTotal	201,300,000	(900,000)	(449,563)	(1,349,563)
Taxes and Departmentals	1,989,710,000	39,635,000	(2,519,987)	37,115,013
Other Sources				
Gas Tax Transfer	16,450,000	-		-
Other Miscellaneous	73,218,106	(683,469)	(235,766)	(919,235)
Lottery	150,500,000	500,000		500,000
Unclaimed Property	3,400,000	(600,000)		(600,000)
SubTotal	243,568,106	(783,469)	(235,766)	(1,019,235)
Total General Revenues	\$ 2,233,278,106	\$ 38,851,531	\$ (2,755,753)	\$ 36,095,778

May 2000 Conference	FY 2001	Change to November Estimate	Gov Included	Change to Gov
Personal Income Tax	\$ 825,500,000	\$ 19,400,000		\$ 19,400,000
General Business Taxes				
Business Corporations	62,700,000	(4,300,000)		(4,300,000)
Franchise	7,800,000	(100,000)		(100,000)
Public Utilities Gross	70,400,000	4,100,000		4,100,000
Financial Institutions	2,800,000	(1,200,000)		(1,200,000)
Insurance Companies	33,500,000	-		-
Bank Deposits	900,000	-		-
Health Care Provider	25,300,000	200,000		200,000
Sales and Use Taxes				
Sales and Use	658,000,000	21,400,000		21,400,000
Motor Vehicle	45,400,000	1,600,000		1,600,000
Motor Fuel	1,010,000	335,000		335,000
Cigarettes	57,300,000	500,000		500,000
Alcohol	9,000,000	-		-
Controlled Substances	-	-		-
Other Taxes				
Inheritance and Gift	31,000,000	1,000,000		1,000,000
Racing and Athletics	5,000,000	(200,000)		(200,000)
Realty Transfer	2,200,000	100,000		100,000
SubTotal - Taxes	1,837,810,000	42,835,000	-	42,835,000
Departmental Receipts				
Licenses and Fees	64,000,000	2,000,000	(1,000,000)	1,000,000
Fines and Penalties	23,000,000	(6,600,000)	2,200,000	(4,400,000)
Sales and Services	34,200,000	-		-
Miscellaneous Departmentals	32,800,000	(2,200,000)	(1,000,000)	(3,200,000)
SubTotal	154,000,000	(6,800,000)	200,000	(6,600,000)
Taxes and Departmentals	1,991,810,000	36,035,000	200,000	36,235,000
Other Sources				
Gas Tax Transfer	9,600,000	-		-
Other Miscellaneous	114,337,542	16,796,875	(9,731,353)	7,065,522
Lottery	165,400,000	(600,000)		(600,000)
Unclaimed Property	3,500,000	(500,000)		(500,000)
SubTotal	292,837,542	15,696,875	(9,731,353)	5,965,522
Total General Revenues	\$ 2,284,647,542	\$ 51,731,875	\$ (9,531,353)	\$ 42,200,522